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Submitted to the Finance, Revenue & Bonding Committee
In opposition to Raised Bill No.s 815, 6348, 6349, and 6350
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Senator Daily, Representative Staples and members of the Finance Revenue and Bonding Committee. My name is Harry Im and I work as State Tax Counsel for United Technologies Corporation.

United Technologies Corporation is a leader in the aerospace, commercial building and alternative energy industries, employing about 28,000 people in Connecticut. All of our major businesses are headquartered in Connecticut, with significant operations in Cheshire, East Hartford, Farmington, Hartford, Middletown, South Windsor, Stratford and Windsor Locks.

I would like to thank the Co-Chairs and members of the Finance Committee in allowing me to submit this testimony in ***opposition to Raised Bill No.s:***

- **815** – An Act Concerning a Moratorium on Business Tax Credits
- **6348** – An Act Concerning Corporation Business Tax Credits
- **6349** – An Act Concerning the Sales Tax on Services
- **6350** – An Act Eliminating Exemptions From the Sales and Use Tax and Lowering the Rate of Such Tax

I urge you to oppose these measures because of their threat to our state's ability to quickly emerge from this difficult economic time. These bills represent drastic overhauls of the Connecticut Corporation Business and Sales & Use Taxes. Such significant, permanent change done without far greater analysis would bring long-term fiscal and economic uncertainty. This would upset the settled expectations encouraged by the current tax system and make it nearly impossible for businesses to conduct long-term planning for in-state investments. Any tax changes should be for only a defined period of time, and limited to those needed to help bring the State through the current crisis.

Furthermore, the financial impact of these bills fall almost entirely upon Connecticut-based employers and investors. Repealing or significantly limiting tax exemptions or credits penalizes precisely those companies that should be supported during this crisis, namely companies that continue to invest in Connecticut jobs and property.

Raised Bills No.s 815 – An Act Concerning a Moratorium on Business Tax Credits, and 6348 – An Act Concerning Corporation Business Tax Credits.

Both of these bills severely impair tax credits' ability to remain vital incentives to continued employment and investment. Bill No. 815 places a two year moratorium on the allowance of any tax credits. Bill No. 6348 limits the annual statewide funding of tax credits to \$100 million and requires a complex voucher system for taxpayers to comply with to claim any tax credits. While there are numerous technical difficulties in both bills, I would prefer to restrict my remarks to the general notion that Connecticut must not suspend or further limit corporate tax credit usage. Restricting utilization of credits will:

- *Inhibit economic recovery and prolong the downturn* – the current tax credits encourage and reward only in-state jobs and activity. Furthermore, the ability to carryforward credits benefit only those companies that continue to maintain a business presence in the state after the initial investment (i.e. maintain a going forward tax liability). These bills will cripple important incentives needed to stimulate Connecticut's fragile economy;
- *Punish **only** in-state companies, i.e. only those companies investing and employing in Connecticut* – Further, it penalizes only those in-state companies that invested in the State in the exact manner the legislature intended to incentivize. Out-of-state companies not performing these activities will not bear any part of this tax increase;
- *Place Connecticut at a distinct competitive disadvantage* - Even in the current fiscal crisis, other states including MA, NY, NJ and FL are looking at expanding credit programs to bolster employment;¹
- *Harms many small in-state companies* – businesses of all sizes rely upon popular credits such as R&D, fixed capital and human capital credits;
- *Upset settled expectations and long-term planning* – Many Connecticut businesses have continued their long-term investment within the state based upon their expectation of the current laws continued vitality. The limitations proposed by these bills greatly reduce any company's ability to project its current and future credit benefits and its impact upon investment decisions;

UTC currently employs nearly 9,000 engineers in Connecticut. Without the continued vitality of the R&D credit, UTC could consider the need to re-examine where else the work could be done in order to take advantage of those types of incentives that are no longer reliable in CT. The R&D credit is a critical financial consideration in our engineering locational decisions.

Raised Bill No.s 6349 – An Act Concerning the Sales Tax on Services, and 6350 – An Act Eliminating Exemptions From the Sales and Use Tax and Lowering the Rate of Such Tax.

This state currently enjoys the dubious distinction of taxing goods and services more broadly than nearly any other state. Yet both of these bills radically further expand

¹ Eg, "More States Considering Tax Breaks To Woo Jobs", Wall Street Journal (February 2, 2009)

the scope of Connecticut's sales tax system. Bill 6349 imposes the sales tax upon professional, insurance and personal services. Bill 6350 effectively repeals all sales tax exemptions and reduces the sales tax rate by 1%. This would represent an incredibly steep tax increase to Connecticut businesses of all sizes and industries. No decrease in the tax rate could mitigate the in-state impact of such a broadening of the tax base.

- *These bills would place Connecticut in a markedly uncompetitive posture compared to the sales tax systems of every other state* - Bill 6350's repeal of all tax exemptions would render business transactions taxable that are exempt in nearly every other jurisdiction. This bill will tax essentially everything that is purchased or sold within the state. This will inevitably lead to multiple taxation as the value of goods and services are repeatedly taxed at all levels of the supply chain. The resulting effective rate of tax on any product produced in Connecticut will be staggering, greatly increasing the cost of doing business here. However, all of these layers of tax could be avoided by moving these operations to any other state.

The bill also repeals exemptions that are critical to Connecticut's key industry clusters, including: manufacturers, broadcasters, financial services, aerospace, biotechnology and alternative energy. Such repeal will have a devastating impact upon the State's ability to retain and foster these employers. For example, the repeal of aerospace or fuel cell related exemptions will make it far less advantageous for UTC to continue these operations within Connecticut.

- *The taxation of professional services would especially hurt Connecticut-based operations and headquartered companies* - Bill 6349's broad taxation of all professional services would particularly harm in-state headquartered companies because of their need for legal, accounting, investment advisory and other professional services. Due to Connecticut's method of sourcing services for sales tax purposes, companies headquartered in other states would not bear any of this tax increase, regardless of where the services are actually performed.

UTC currently bolsters its own 9,000 Connecticut engineers with external professional firms providing an additional 3,500+ in-state engineers. Bill No. 6349 would add a significant cost to this in-state expense, raising the inevitable reconsideration of where else this work could be done more cost effectively.

In closing, as the federal government and many other states have publicly asserted, now is **not** the time to raise tax burdens on employers and investment. During the last recession, certain policies adopted by the State inhibited its recovery and prolonged the downturn, including limiting credit utilization to 70% of tax liability. Any legislation crafted today must be done to not simply address the current fiscal need, but to also preserve Connecticut-based jobs.

Thank you very much for your time and consideration.